

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON MFOLOZI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Mfolozi Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mfolozi Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Irregular expenditure

8. The municipality incurred irregular expenditure of R9,835 million as disclosed in note 28 to the financial statements as the SCM processes were not followed.

Unauthorised expenditure

9. The municipality incurred unauthorised expenditure of R3,874 million as disclosed in note 28 to the financial statements as the unspent conditional grants were not supported by adequate cash.

Fruitless and wasteful expenditure

10. The municipality incurred fruitless and wasteful expenditure of R873,107 as a result of interest and penalty charges levied on late accounts from the South African Revenue Services identified during the audit as disclosed in note 29.

Going concern

11. As disclosed in note 27 to the financial statements the municipality did not have sufficient cash resources to pay the trade and other payables of R24,185 million, short term portion of finance lease obligation of R126,180 and to repay the current portion of unspent grants of R3,874 million at 30 June 2012. These issues indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Additional matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

13. The supplementary schedules set out on pages XX to XX do not form part of the financial statements and are presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

15. I was unable to report on the usefulness and reliability of the annual performance report of Mfolozi Municipality as it was not prepared as required by section 46 of the Municipal System Act 32 of 2000 and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

16. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements

17. The financial statements submitted for auditing were not prepared in all material respect in accordance with the requirements of section 122 (1) of the MFMA. Material misstatement of notes to the financial statements identified by the auditors was subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Audit committees

18. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information as required by section 166(2)(a)(iv) of the MFMA.

Procurement and contract management

19. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
20. Awards were made to providers who are persons in service of other state institutions in contravention of the requirement of the SCM regulations 44. Furthermore, the provider failed to declare that he/she is in the service of the state as required by Municipal SCM Regulation 13(c).
21. Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by Supply Chain Regulations section 13(b).
22. Goods and services above R30 000 were procured without applying the preference point system as required by the Preferential Procurement Regulations 2011 section 5(1)(a).

Expenditure management

23. The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
24. The municipality did not comply with the requirements of paragraph 2(1) of the Fourth Schedule of the Income Tax Act, Section 6 of the Skills Development Levies Act 9 of 1999 and Section 8 of the Unemployment Insurance Contributions Act 4 of 2002 which prescribe that the employee's tax and UIF contributions as well as skills development levy must be paid over to SARS within 7 days after the end of the month during which the amount was deducted.

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

26. The accounting officer and council did not perform oversight by reviewing the annual financial statement and performance report to ensure that all reported information is credible, complete, complies with all laws and regulation and is supported by reliable documents.

Financial and performance management

27. The chief financial officer and performance management unit did not perform a detailed review of the annual financial statement and performance report to ensure that all reported information is credible, complete, complies with all laws and regulation and is supported by reliable documents.

Governance

28. The audit committee was not effective in ensuring that the annual financial statements and performance report was adequate, reliable and accurate in financial reporting.

Auditor General

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

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